

VILLAGE OF PORT SANILAC
Sanilac County, Michigan

ANNUAL FINANCIAL STATEMENTS
and Supplementary Information
FOR THE YEAR ENDED JUNE 30, 2004

**Stewart,
Beauvais
& Whipple** P.C.

CERTIFIED PUBLIC ACCOUNTANTS



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name VILLAGE OF PORT SANILAC	County SANILAC
Audit Date 6/30/04	Opinion Date 7/22/04	Date Accountant Report Submitted to State: 11/16/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

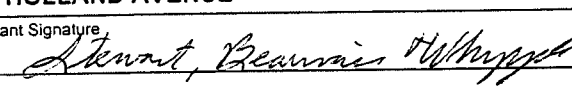
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) STEWART, BEAUVAIS & WHIPPLE PC			
Street Address 1979 HOLLAND AVENUE	City PORT HURON	State MI	ZIP 48060
Accountant Signature 		Date	

VILLAGE OF PORT SANILAC, MICHIGAN

TABLE OF CONTENTS JUNE 30, 2004

	<u>Page Number</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	15
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Net Assets – Proprietary Funds	18
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	19
Statement of Cash Flows – Proprietary Funds	20
Statement of Fiduciary Net Assets – Fiduciary Funds	21
Combining Statement of Net Assets – Component Units	22
Combining Statement of Activities – Component Units	23
Notes to the Basic Financial Statements	25
Required Supplementary Information:	
General Fund –	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	41
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual by Activity	42

Page Number

Supplementary Information:

Combining and Individual Fund Statements and Schedules:

Nonmajor Governmental Funds –

Combining Balance Sheet 43

Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances 44

Statement of Revenues, Expenditures, and Changes
in Fund Balances – Budget and Actual

Major Street Fund 45

Local Street Fund 46

County Road Fund 47

South Ramp Fund 48

Bark Shanty Community Center 49

Fiduciary Fund –

Statement of Changes in Assets and Liabilities 50

INDEPENDENT AUDITOR'S REPORT

To the President and
Members of the Village Council
Village of Port Sanilac, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Port Sanilac, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Port Sanilac's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Village of Port Sanilac, Michigan prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Port Sanilac, Michigan as of June 30, 2004, and the respective changes in financial position-modified cash basis thereof for the year then ended in conformity with the basis of accounting described in Note 1.

As discussed in Note 11 to the basic financial statements, the Village and its component units adopted Governmental Accounting Standards Board Statement No. 34 and related statements as of and for the year ended June 30, 2004. This resulted in a change in the Village's basic financial statement format and content.

In accordance with *Government Auditing Standards*, we have also issued a report, dated July 22, 2004, on our consideration of the Village of Port Sanilac, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10, and schedules of budgetary comparisons on pages 45 through 49 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Port Sanilac, Michigan's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stewart, Beaman & Whipple
Certified Public Accountants

July 22, 2004

MANAGEMENT DISCUSSION AND ANALYSIS

This section of the Village of Port Sanilac's annual financial report presents the Village's financial performance during the fiscal year that ended on June 30, 2004 with the limitations of the Village's modified cash basis of accounting. Please read it in conjunction with the Village's financial statements, which follows this section. Since this is the first year of implementation of GASB No. 34, comparative data to the prior year is not available in all instances. It is included in this report when available and appropriate. In subsequent years, comparative data with the prior year will be available.

FINANCIAL HIGHLIGHTS

The Village's total revenues exceeded total expenses, on the modified cash basis of accounting, by \$151,182 for the year, resulting in an increase in total net assets of 8.4 percent over the previous year.

The Village participated in the Michigan Drinking Water Revolving Fund during the year by drawing down \$1,922,548 to fund water system improvements.

The Village's General fund ended the year with a fund balance of \$134,292, which represents approximately 35 percent of reoccurring expenditures of the general fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

Report Components –

The annual report consists of four parts as follows:

Basic Financial Statements

Government-Wide Financial Statements: The Statement of Net Assets and the Statement of Activities (on pages 11-13) provide information about the activities of the Village government-wide and present a longer-term view of the Village's finances.

Fund Financial Statements: Fund financial statements (starting on page 14) focus on the individual parts of the Village government. Fund financial statements also report the Village's operations in more detail than the government-wide statements by providing information about the Village's most significant ("major") funds. For governmental activities, these statements tell how these services were financed in the short-term as well as what remains for future spending. For proprietary activities, these statements offer short-term and long-term financial information about the activities the Village operates like businesses, such as the water, sewer, and trash services.

Notes to the Financial Statements: The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Required Supplementary Information: This Management's Discussion and Analysis and the General fund Budgetary Comparison Schedule (starting on page 41) represent financial information required by GASB to be presented. Such information provide users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as "the basic financial statements").

Other Supplementary Information: This part of the annual report (starting on page 43) includes optional financial information such as combining statements for nonmajor funds (which are added together and shown in the fund financial statements in a single column) and budget comparisons for special revenue funds. This other supplemental financial information is provided to address certain specific needs of various users of the Village's annual report.

Basis of Accounting

The Village has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the Village's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions, except for the recording of depreciation expense on capital assets in the government-wide financial statements for all activities and in the fund financial statements for proprietary fund activities.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the Village as a Whole

The Villages Reporting Entity Presentation

The annual report includes all activities for which the Village Council is fiscally responsible. These activities defined as the Village's reporting entity, are operated as the primary government and other separate legal entities that are included as component units.

The Government-Wide Statement of Net Assets and the Statement of Activities

Our financial analysis of the Village as a whole begins on page 11. The government-wide financial statements are presented on pages 11 and 12. One of the most important questions asked about the Village's finances is, "is the Village as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Village as a whole and about its activities in a way that helps answer this question. These statements include all of the Village's assets and liabilities resulting from the use of the modified cash basis of accounting.

These two statements report the Village's net assets and changes in them. Keeping in mind the limitations of the modified cash basis of accounting, you can think of the Village's net assets the difference between assets and liabilities as one way to measure the Village's financial health or financial position. Over time, increases or decreases in the Village's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Village's sales tax base and the condition of the Village's roads, to assess the overall health of the Village.

In the Statement of Net Assets and the Statement of Activities, we divide the Village into three kinds of activities:

- *Governmental activities.* Most of the Village's basic services are reported here, including the police, fire, general administration, streets, parks and recreation. Property taxes, fees, and state funds finance most of these activities.
- *Business-type activities.* The Village charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Village's water, sewer, and sanitation systems are reported here.
- *Component units.* Although separate, the Downtown Development Authority and Port Authority (Harbor) are important because the Village is financial accountable for them. Separate financial statements are not issued for the component units; they are included in the financial statements as discrete columns.

Fund Financial Statements

The fund financial statements provide more detailed information about the Village's most significant funds; not the Village as a whole. Funds are accounting devices that the Village uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The Village Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and other revenues.

The Village has three kinds of funds:

- **Governmental funds** – Most of the Village's basis services are reported in governmental funds (all funds except water, sewer, trash, and internal service), which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using the current financial resources measurement focus which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Village's general government operations and the basic services it provides. We describe the relationship (or difference) between governmental activities and governmental funds in reconciliation schedules (Statement of Net Assets and Statement of Activities) on pages 15 and 17.
- **Proprietary Funds** – Proprietary Funds use the economic resources measurement focus, which is the same type used by private business. The Village maintains two types of proprietary funds.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses enterprise funds to account for the activities of the water, sewer, and trash services.

Internal Service Funds are an accounting device used to accumulate and allocate cost internally among the Village's various functions. The Village uses an internal service fund to account for the activities of its special equipment fund.

Because these services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary financial statements provide separate information for the water, sewer, and trash funds, which are considered major funds of the Village. The Village's Internal service fund is presented in the proprietary fund financial statements in the governmental activities – Internal Service Fund column.

- **Fiduciary Funds** – Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Village's own programs. The accounting used for the fiduciary fund is much like that used for proprietary funds.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

Net Assets – Modified Cash Basis –

The Village's combined net assets are \$1,953,188. Our analysis below focuses on the net assets (Table 1) of the Village's governmental and business-type activities. Comparison data from the prior year is not available for each line item as this is the first year of implementation of the new Governmental Accounting Standard Board Statement No. 34. In future years a comparative analysis of government wide data will be presented in full.

Table 1

Net Assets Modified Cash Basis of Governmental and Business-type Activities June 30, 2004

	Governmental Activities	Business-type Activities	Total Government
Current and other assets	\$ 407,763	\$ 515,303	\$ 923,066
Capital Assets – net	<u>331,640</u>	<u>2,688,611</u>	<u>3,020,251</u>
Total Assets	<u>739,403</u>	<u>3,203,914</u>	<u>3,943,317</u>
Long-term debt outstanding	67,345	1,922,548	1,989,893
Other liabilities	<u>-</u>	<u>236</u>	<u>236</u>
Total liabilities	<u>67,345</u>	<u>1,922,784</u>	<u>1,990,129</u>
Net Assets:			
Invested in capital assets, net of debt	331,640	766,063	1,097,703
Restricted	-	476,073	476,073
Unrestricted	<u>340,418</u>	<u>38,994</u>	<u>379,412</u>
Total Net Assets	<u>\$ 672,058</u>	<u>\$ 1,281,130</u>	<u>\$ 1,953,188</u>

Governmental Activities –

Governmental activities for the Village include four major activities: General Government, Public Safety, Public Works and Parks/Recreation. General government includes the Legislative, Administrative, and Clerk departments. Public safety includes the police and fire departments. Public works includes primarily the Department of Public Works and building and maintenance of the major and local roads. The Village Parks and Recreation department, South Ramp, and Bark Shanty Community Center comprise the Parks/Recreation activity.

The largest revenue for governmental activities is the general operating property tax.

State shared revenue was \$59,574 for 2004. The State of Michigan collects sales tax and redistributes a portion of these collection to local jurisdictions. State revenue sharing is a major source of revenue for the Village. It is somewhat volatile since it fluctuates with the economy and the legislature's appropriation.

To assist in maintenance and repair of the road system, the Village receives Michigan Transportation Fund money that accounted for \$53,580 listed under program revenues. This money varies from year to year based on state revenues at the gasoline pumps. The Village also received a county voted millage that amounts to \$41,051 for 2004 to be used on roads or related expenditures.

Table 2 below presents the cost of each of the Village programs; general government, public safety, public works and recreation and cultural, and each program's net cost. The net cost shows the financial burden that was placed on the Village's general fund (primary from property tax and State shared revenue) by each of these functions.

Table 2
Governmental Activities
June 30, 2004

	<u>Total cost of Services</u>	<u>Net Cost of Services</u>
General Government	\$ 115,949	\$ 103,484
Public Safety	134,976	76,457
Public Works	171,912	108,333
Recreation and Cultural	<u>20,473</u>	<u>9,046</u>
Totals	<u>\$ 443,310</u>	<u>\$ 297,320</u>

Business-type Activities

The Village has three business-type activities – water, sewer and trash. Revenues of these activities (see Table 3) increased net assets by \$85,224.

Table 3
Changes in Net Assets of Business-type Activities
June 30, 2004

Revenues –	
Charges for Services	\$ 310,393
Other	<u>66,522</u>
Total Revenues	<u>376,915</u>
Expenses –	
Water, sewer, trash	<u>264,590</u>
Net operating income	112,325
Transfers	<u>(27,101)</u>
Increase in Net Assets	<u>\$ 85,224</u>

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

As the Village completed the year, its general governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$364,321.

General Fund Budgetary Highlights

There were no amendments by the Village Council to the original budget passed in June 2003. Even though the budget is passed by the Village Council prior to the beginning of the fiscal year, all expenditures are reviewed and approved as they occur through out the year. During the budget process the Council discusses major projects proposed for the upcoming year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004, the Village had a book value of \$3,020,251 invested in a broad range of capital assets, including police, fire and DPW equipment, buildings, park facilities, roads, and water and sewer lines. Refer to Table 4 below for a schedule showing the Capital Assets at year ended June 30, 2004 for both the Governmental and the Business-type activities. There is also a total column for the Total Primary Government.

Table 4
Capital Assets at Year End
(Net of Depreciation)
June 30, 2004

	Governmental Activities	Business-type Activities	Total Government
Land and land improvements	\$ 12,000	\$ -	\$ 12,000
Construction-in-progress	-	1,947,454	1,947,454
Buildings & Improvements	205,536	-	205,536
Machinery & Equipment	49,205	9,827	59,032
Vehicles	50,895	-	50,895
Improvements other than buildings	14,004	-	14,004
Water & Sewer systems	<u>-</u>	<u>731,330</u>	<u>731,330</u>
	<u>\$ 331,640</u>	<u>\$ 2,688,611</u>	<u>\$ 3,020,251</u>

The major addition to capital assets was the water system improvement project which had costs of \$1,947,454 as of June 30, 2004.

Debt

At year end the Village had a \$1,922,548 obligation to the State of Michigan through participation in the Drinking Water Revolving Fund through which the Department of Environmental Quality Bonds have been sold in the amount of \$2,135,000. There is \$212,452 available for the Village to draw from the fund.

More detailed information about the Village's long-term liabilities is presented in Note 8 of Notes to Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Village of Port Sanilac is primarily a resort community located in Sanilac County, Michigan. The Village is on Lake Huron and is in proximity to the Detroit metropolitan area with several major roadways, including Interstate Highway 94.

In fiscal year 2004, the general fund had a surplus of \$5,448. The current unreserved fund balance for the general fund is \$134,292. The \$134,292 represents approximately 35% of total expenditures of the General Fund for 2004. The Village relies heavily on property taxes and operated at the state-authorized tax rate limit after application of Proposal A and Headlee.

The Village has adopted a balanced budget for fiscal year 2005. The Village's elected and appointed officials considered many factors when setting the 2005 budget, including tax rates and fees that will be charged for the Village's activities. The expenditures budgeted for the 2005 general fund increased \$366 from fiscal year 2004. The revenue from property taxes was budgeted at \$332,392 or about the same as last year's collection. The legislature may cut the State Revenue Sharing appropriation 17% from fiscal year 2004 levels which is a concern for the Village. During 2005 the Michigan Drinking Water Fund project will be completed and payments on the loan will begin.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional financial information, contact James Matson, Village Treasurer, by mail at 46 N. Ridge Street, P.O. Box 328, Port Sanilac, MI 48469 or by phone at 810-622-9963.

BASIC FINANCIAL STATEMENTS

VILLAGE OF PORT SANILAC, MICHIGAN

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

JUNE 30, 2004

	Primary Government			Component
	Governmental	Business Type	Total	Units
	Activities	Activities		
ASSETS:				
Cash and cash equivalents	\$ 259,926	\$ 305,030	\$ 564,956	\$ 102,613
Investments	115,840	162,365	278,205	71,643
Due from state	17,763	-	17,763	
Internal balances	14,132	(14,132)	-	
Due from fiduciary funds	102	-	102	-
Due from primary government	-	-	-	236
Advance to other funds	-	62,040	62,040	
Restricted Assets -				
Investments	-	-	-	70,000
Capital assets (net of accumulated depreciation)				
Assets not being depreciated	12,000	1,947,454	1,959,454	37,000
Assets being depreciated	319,640	741,157	1,060,797	728,298
Total Assets	<u>739,403</u>	<u>3,203,914</u>	<u>3,943,317</u>	<u>1,009,790</u>
LIABILITIES:				
Due to component units	-	236	236	-
Non-current liabilities				
Due within one year	22,500	80,000	102,500	20,000
Due in more than one year	44,845	1,842,548	1,887,393	62,778
Total Liabilities	<u>67,345</u>	<u>1,922,784</u>	<u>1,990,129</u>	<u>82,778</u>
NET ASSETS:				
Investment in capital assets, net of related liabilities	331,640	766,063	1,097,703	765,298
Restricted				
Debt Service	-	89,023	89,023	-
Acquisition/construction of capital assets	-	387,050	387,050	-
Unrestricted	<u>340,418</u>	<u>38,994</u>	<u>379,412</u>	<u>161,714</u>
Total Net Assets	<u>\$ 672,058</u>	<u>\$ 1,281,130</u>	<u>\$ 1,953,188</u>	<u>\$ 927,012</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PORT SANILAC, MICHIGAN

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS FOR THE YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General Government	\$ 115,949	\$ 12,465		
Public Safety	134,976	53,799	4,720	
Public Works	171,912	9,999	53,580	-
Recreation and Culture	20,473	11,427	-	
Total governmental activities	<u>443,310</u>	<u>87,690</u>	<u>58,300</u>	<u>-</u>
Business type activities				
Water	129,805	192,964	-	-
Sewer	70,161	47,806	-	-
Trash	64,624	69,623	-	-
Total business type activities	<u>264,590</u>	<u>310,393</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>707,900</u>	<u>398,083</u>	<u>58,300</u>	<u>-</u>
Component Units				
Downtown Development Authority	31,382	-	-	-
Port Authority (Harbor)	<u>390,397</u>	<u>396,481</u>	<u>-</u>	<u>-</u>
Total Component Units	<u>421,779</u>	<u>396,481</u>	<u>-</u>	<u>-</u>

General revenues:

Property taxes - primary government

Property taxes - DDA

Grants and contribution not -
restricted to specific programs

Unrestricted investment income

Gain on sale of capital assets

Transfers

Total general revenues and transfers

Change in net assets

Net assets at beginning of year

Net assets at end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

<u>Primary Government</u>		<u>Total</u>	<u>Component Units</u>
<u>Governmental Activities</u>	<u>Business Type Activities</u>		
\$ (103,484)	\$ -	\$ (103,484)	\$ -
(76,457)	-	(76,457)	-
(108,333)	-	(108,333)	-
(9,046)	-	(9,046)	-
<u>(297,320)</u>	<u>-</u>	<u>(297,320)</u>	<u>-</u>
-	63,159	63,159	-
-	(22,355)	(22,355)	-
-	4,999	4,999	-
-	45,803	45,803	-
<u>(297,320)</u>	<u>45,803</u>	<u>(251,517)</u>	<u>-</u>
-	-	-	(31,382)
-	-	-	6,084
-	-	-	<u>(25,298)</u>
262,436	62,579	325,015	-
-	-	-	72,103
59,574	-	59,574	7,019
3,067	3,943	7,010	1,849
-	-	-	-
38,201	(27,101)	11,100	-
<u>363,278</u>	<u>39,421</u>	<u>402,699</u>	<u>80,971</u>
65,958	85,224	151,182	55,673
606,100	1,195,906	1,802,006	871,339
<u>\$ 672,058</u>	<u>\$ 1,281,130</u>	<u>\$ 1,953,188</u>	<u>\$ 927,012</u>

VILLAGE OF PORT SANILAC, MICHIGAN
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Assets:			
Cash and cash equivalents	\$ 66,501	\$ 154,175	\$ 220,676
Investments	33,674	75,466	109,140
Due from state	8,663	9,100	17,763
Due from other funds	<u>26,074</u>	<u>620</u>	<u>26,694</u>
Total Assets	<u>\$ 134,912</u>	<u>\$ 239,361</u>	<u>\$ 374,273</u>
Liabilities:			
Due to other funds	\$ 620	\$ 9,332	\$ 9,952
Total Liabilities	<u>620</u>	<u>9,332</u>	<u>9,952</u>
Fund Balances:			
Unreserved -			
Designated -	62,702	-	62,702
Undesignated -			
General Fund	71,590	-	71,590
Special Revenue Funds	<u>-</u>	<u>230,029</u>	<u>230,029</u>
Total Equity	<u>134,292</u>	<u>230,029</u>	<u>364,321</u>
Total Liabilities and Fund Equity	<u>\$ 134,912</u>	<u>\$ 239,361</u>	<u>\$ 374,273</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PORT SANILAC, MICHIGAN

RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2004

Fund Balances - total governmental funds		\$	364,321
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Capital assets			823,944
Accumulated depreciation		(537,628)
Internal Service Fund used by management to charge cost of the City's motor pool activities. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.			
			88,766
Long - term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Advances payable	(62,040)	
Accrued compensated absences	(5,305)	(
			67,345)
Net Assets of governmental activities		\$	<u>672,058</u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF PORT SANILAC, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 176,489	\$ 44,896	\$ 221,385
Licenses and permits	-	-	-
Intergovernmental -			
State	59,574	53,580	113,154
Local	11,750	41,051	52,801
Charges for services	26,952	-	26,952
Fines and forfeits	496	-	496
Interest and rent	1,746	8,790	10,536
Other	41,755	3,988	45,743
Total Revenues	<u>318,762</u>	<u>152,305</u>	<u>471,067</u>
Expenditures:			
Current -			
General Government	113,237	-	113,237
Public Safety	117,300	-	117,300
Public Works	101,291	90,119	191,410
Recreation and Cultural	21,587	17,663	39,250
Debt Service -			
Principal	-	12,500	12,500
Total Expenditures	<u>353,415</u>	<u>120,282</u>	<u>473,697</u>
Excess of revenues over (under) expenditures	(34,653)	32,023	(2,630)
Other Financing Sources (Uses):			
Sale of asset	-	11,100	11,100
Advance proceeds	10,000	-	10,000
Transfers in	32,901	-	32,901
Transfers out	(2,800)	(3,000)	(5,800)
Total Other Financing Sources (Uses)	<u>40,101</u>	<u>8,100</u>	<u>48,201</u>
Excess of revenues and other sources over (under) expenditures and other uses	5,448	40,123	45,571
Fund Balances at beginning of year	<u>128,844</u>	<u>189,906</u>	<u>318,750</u>
Fund Balances at end of year	<u>\$ 134,292</u>	<u>\$ 230,029</u>	<u>\$ 364,321</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PORT SANILAC, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
JUNE 30, 2004**

Net change in fund balances - total governmental funds	\$ 45,571
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	38,898
Depreciation expense	(26,879)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources to governmental funds. Neither transaction, however, has any effect on net assets.</p>	
Principal payments on long term liabilities	12,500
Advance proceeds	(10,000)
<p>Internal service funds used by management to charge costs of the City's motor pool activities. The net revenues (expenses) attributable to those funds is reported with governmental activities.</p>	
	7,248
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds</p>	
Increase in accrued compensated absences	(1,380)
Change in net assets of governmental activities	<u>\$ 65,958</u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF PORT SANILAC, MICHIGAN
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
JUNE 30, 2004

	Business Type Activities-Enterprise Funds				Governmental Activities Internal -Service Fund
	Water	Sewer	Trash	Total	
ASSETS:					
Current Assets:					
Cash and cash equivalents	\$ 112,198	\$ 179,020	\$ 13,812	\$ 305,030	\$ 39,250
Investment	15,352	127,567	19,446	162,365	6,700
	<u>127,550</u>	<u>306,587</u>	<u>33,258</u>	<u>467,395</u>	<u>45,950</u>
Noncurrent Assets:					
Advance to other funds	-	62,040	-	62,040	-
Capital assets, net of accumulated depreciation	2,056,481	632,130	-	2,688,611	45,324
	<u>2,056,481</u>	<u>694,170</u>	<u>-</u>	<u>2,750,651</u>	<u>45,324</u>
Total Assets	<u>2,184,031</u>	<u>1,000,757</u>	<u>33,258</u>	<u>3,218,046</u>	<u>91,274</u>
LIABILITIES:					
Current Liabilities:					
Due to other funds	242	13,890	-	14,132	2,508
Due to component unit	236	-	-	236	-
Bonds payable (current portion)	80,000	-	-	80,000	-
	<u>80,478</u>	<u>13,890</u>	<u>-</u>	<u>94,368</u>	<u>2,508</u>
Long-Term Liabilities (less current portion):					
Bonds payable	<u>1,842,548</u>	<u>-</u>	<u>-</u>	<u>1,842,548</u>	<u>-</u>
Total Liabilities	<u>1,923,026</u>	<u>13,890</u>	<u>-</u>	<u>1,936,916</u>	<u>2,508</u>
NET ASSETS:					
Investment in capital assets, net	133,933	632,130	-	766,063	45,324
Restricted for:					
Debt Service	89,023	-	-	89,023	-
Improvements	146,331	240,719	-	387,050	-
Unrestricted					
Undesignated	(108,282)	114,018	33,258	38,994	43,442
Total Net Assets	<u>\$ 261,005</u>	<u>\$ 986,867</u>	<u>\$ 33,258</u>	<u>\$ 1,281,130</u>	<u>\$ 88,766</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PORT SANILAC, MICHIGAN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2004

	Business Type Activities-Enterprise Funds				Governmental Activities
	Water	Sewer	Trash	Total	Internal Service Funds
Operating Revenues:					
Charges for services -					
Quarterly fees	\$ 53,523	\$ 45,223	\$ 69,623	\$ 168,369	\$ -
Tap-in fees	2,555	1,010	-	3,565	-
Equipment rental charges	-	-	-	-	36,496
Other	445	1,573	-	2,018	-
	<u>56,523</u>	<u>47,806</u>	<u>69,623</u>	<u>173,952</u>	<u>36,496</u>
Operating Expenses:					
Personnel services -					
Salaries and wages	43,296	10,784	-	54,080	2,620
FICA	2,618	2,094	-	4,712	343
Hospitalization	5,000	6,500	-	11,500	-
Other fringe benefits	8,000	7,000	-	15,000	-
Supplies	8,726	929	-	9,655	6,908
Other services and charges -					
Contracted services	1,482	3,889	64,217	69,588	-
Utilities	20,160	6,141	-	26,301	-
Insurance	1,114	489	-	1,603	5,443
Repairs and maintenance	6,471	5,612	-	12,083	3,103
Equipment rental	8,799	3,527	-	12,326	-
Depreciation	7,665	23,196	-	30,861	11,121
Other	1,852	-	407	2,259	119
	<u>115,183</u>	<u>70,161</u>	<u>64,624</u>	<u>249,968</u>	<u>29,657</u>
Operating Income (Loss)	(58,660)	(22,355)	4,999	(76,016)	6,839
Non-Operating Revenues:					
Current property tax - improvements	-	62,579	-	62,579	-
Water improvement charges	47,418	-	-	47,418	-
DWRF debt charges	89,023	-	-	89,023	-
Interest earned	974	2,544	425	3,943	409
Interest expenses	(14,622)	-	-	(14,622)	-
	<u>122,793</u>	<u>65,123</u>	<u>425</u>	<u>188,341</u>	<u>409</u>
Net Income Before Transfers	64,133	42,768	5,424	112,325	7,248
Transfers:					
Transfers out	(11,101)	(9,000)	(7,000)	(27,101)	-
Net Income (Loss)	53,032	33,768	(1,576)	85,224	7,248
Net Assets at beginning of year	207,973	953,099	34,834	1,195,906	81,518
Net Assets end of year	<u>\$ 261,005</u>	<u>\$ 986,867</u>	<u>\$ 33,258</u>	<u>\$ 1,281,130</u>	<u>\$ 88,766</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PORT SANILAC, MICHIGAN
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Business Type Activities-Enterprise Funds				Governmental Activities Internal Service Funds
	Water	Sewer	Trash	Total	
Cash Flows From Operating Activities:					
Cash receipts from customers	\$ 56,523	\$ 47,806	\$ 69,623	\$ 173,952	\$ -
Cash receipts from interfund services	-	-	-	-	36,496
Cash payments to suppliers	(64,222)	(36,181)	(64,624)	(165,027)	(15,916)
Cash payments to employees	(43,296)	(10,784)	-	(54,080)	(2,620)
Net Cash Provided (Used) by Operating Activities	(50,995)	841	4,999	(45,155)	17,960
Cash Flows From Noncapital Financing Activities:					
Change in due from other funds	-	82,500	-	82,500	-
Change in due to other funds	(80,000)	7,025	-	(72,975)	-
Operating transfers out	(11,101)	(9,000)	(7,000)	(27,101)	-
Net Cash Provided (Used) by Non-Capital Financing Activities	(91,101)	80,525	(7,000)	(17,576)	-
Cash Flows From Capital and Related Financing Activities:					
Property taxes	-	62,579	-	62,579	-
Improvement charges	47,418	-	-	47,418	-
DWRF debt charges	89,023	-	-	89,023	-
Bond proceeds	1,922,548	-	-	1,922,548	-
Purchase of fixed assets	(1,807,783)	-	-	(1,807,783)	(17,050)
Net Cash Provided by Capital and Related Financing Activities	251,206	62,579	-	313,785	(17,050)
Cash Flows From Investing Activities:					
Interest earned	974	2,544	425	3,943	409
Interest expense	(14,622)	-	-	(14,622)	-
Net purchase of investments	(42)	(344)	(53)	(439)	(18)
Net Cash Provided (Used) by Investing Activities	(13,690)	2,200	372	(11,118)	391
Net Increase (Decrease) in Cash and Cash Equivalents for the year	95,420	146,145	(1,629)	239,936	1,301
Cash and Cash Equivalents at Beginning of Year	16,778	32,875	15,441	65,094	37,949
Cash and Cash Equivalents at End of Year	\$ 112,198	\$ 179,020	\$ 13,812	\$ 305,030	\$ 39,250
Reconciliation of Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Operating income (loss) for the year	\$(58,660)	\$(22,355)	\$ 4,999	\$(76,016)	\$ 6,839
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities -					
Depreciation	7,665	23,196	-	30,861	11,121
Net Cash Provided (Used) By Operating Activities	\$(50,995)	\$ 841	\$ 4,999	\$(45,155)	\$ 17,960

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PORT SANILAC, MICHIGAN

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004**

	<u>Agency Funds</u>
ASSETS:	
Cash and cash equivalents	<u>\$ 102</u>
 LIABILITIES:	
Due to other funds	<u>\$ 102</u>

The accompanying notes are an integral part of these financial statements.

COMPONENT UNITS

VILLAGE OF PORT SANILAC, MICHIGAN

COMBINING STATEMENT OF NET ASSETS DISCRETELY PRESENTED COMPONENT UNITS

JUNE 30, 2004

	Downtown Development Authority	Port Authority (Harbor)	Totals
ASSETS			
Cash and cash equivalents	\$ 82,359	\$ 20,254	\$ 102,613
Investments	-	71,643	71,643
Due from primary government	236	-	236
Restricted Assets -			-
Investments	-	70,000	70,000
Capital Assets (net of accumulated depreciation)			
Assets not being depreciated	-	37,000	37,000
Assets being depreciated	-	728,298	728,298
Total Assets	<u>82,595</u>	<u>927,195</u>	<u>1,009,790</u>
LIABILITIES			
Non-current liabilities			
Due within one year	-	20,000	20,000
Due in more than one year	-	62,778	62,778
Total Liabilities	<u>-</u>	<u>82,778</u>	<u>82,778</u>
NET ASSETS			
Investments in Capital Assets, net of related liabilities	-	682,520	682,520
Unrestricted	<u>82,595</u>	<u>161,897</u>	<u>244,492</u>
Total net assets	<u>\$ 82,595</u>	<u>\$ 844,417</u>	<u>\$ 927,012</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PORT SANILAC, MICHIGAN

COMBINING STATEMENT OF ACTIVITIES DISCRETELY PRESENTED COMPONENT UNITS FOR THE YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Downtown Development Authority			
Governmental activities:			
General Government	\$ 31,382	\$ -	\$ -
Total Downtown Development Authority	<u>31,382</u>	<u>-</u>	<u>-</u>
Port Authority (Harbor)			
Business-Type activities:			
Public Safety	383,075	396,481	-
Interest on Long Term Liabilities	7,322	-	-
Total Port Authority (Harbor)	<u>390,397</u>	<u>396,481</u>	<u>-</u>
 Total Component Units	 <u>\$ 421,779</u>	 <u>\$ 396,481</u>	 <u>\$ -</u>

General Revenues:

Property taxes

Grants and contribution not restricted
to specific program

Unrestricted investment income

Total general revenues and transfers

Change in net assets

Net assets at beginning of year

Net assets at end of year

The accompanying notes are an integral part of these financial statements.

Capital Grants and Contribution	Net (Expense) Revenue and Change in Net Assets		
	Downtown Development Authority	Port Authority (Harbor)	Total
\$ -	\$ (31,382)	\$ -	\$ (31,382)
-	(31,382)	-	(31,382)
-	-	13,406	13,406
-	-	(7,322)	(7,322)
-	-	6,084	6,084
<u>\$ -</u>	<u>\$ (31,382)</u>	<u>\$ 6,084</u>	<u>\$ (25,298)</u>
	72,103	-	72,103
	883	6,136	7,019
	407	1,442	1,849
	<u>73,393</u>	<u>7,578</u>	<u>80,971</u>
	42,011	13,662	55,673
	<u>40,584</u>	<u>830,755</u>	<u>871,339</u>
	<u>\$ 82,595</u>	<u>\$ 844,417</u>	<u>\$ 927,012</u>

VILLAGE OF PORT SANILAC, MICHIGAN
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2004

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting. This modified basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Governments also have the option of following subsequent private-sector guidance for these business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity -

The Village of Port Sanilac is one of ten Villages in Sanilac County and is located within the boundaries of Sanilac Township. The Village operates under an elected Village Council which consists of a President and six Council members. The Village provides services to its residents in many areas including law enforcement, fire protection, water, sewer and recreation.

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14 the reporting entity includes both the primary government and all of its "component units". The criteria established by GASB for determining the component units include oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

DISCRETELY PRESENTED COMPONENT UNITS - The component units in the financial statements include the financial data of the Village of Port Sanilac Downtown Development Authority (DDA) and the Port Authority (Harbor). They are reported as discrete columns to emphasize that they are legally separate from the Village.

The Downtown Development Authority operates with not less than eight or more than twelve members plus the Chief Executive Officer of the Village of Port Sanilac. Board members are appointed by the Village President, subject to the approval of the governing body of the Village. The Downtown Development Authority was created to develop the Downtown District.

The Port Authority (Harbor) operates with seven members appointed by the Village Council. The Port Authority (Harbor) has full charge of all matters connected with the operation, supervision and maintenance of the harbor and the public facilities therein. The Port Authority (Harbor) was created in the interest of public safety for the better protection of life and property on the waters of the harbor of Port Sanilac and for the proper development and utilization of the harbor for the public benefit.

Separate financial statements are not issued for the discretely presented component units. The following notes include the discretely presented component units with the DDA operations similar to a Special Revenue Fund and the Port Authority (Harbor) similar to an Enterprise Fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

FISCAL YEAR ENDS – All of the Village Funds and Component Units operate and are reported on a June 30 year end with the exception of the Port Authority (Harbor) which operates and is reported as of December 31.

B. Government-wide and fund financial statements –

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation –

Measurement Focus -

In the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined in item b below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus, as applied to the modified cash basis of accounting, is used as appropriate

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

- b. All proprietary funds utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial, or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting –

In the government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental, business-like, and component unit activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements, proprietary fund statements, and the similar discretely presented component unit statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements, except for State of Michigan Act 51 revenue which is accrued.

If the Village utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

State shared revenue is all considered to be susceptible to accrual and therefore has been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Village reports the following major governmental funds:

General Fund – is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Village reports the following major proprietary funds:

Sewer Fund – is used to account for the operations that provide sanitary sewer service to the Village residents.

Water Fund – is used to account for the operations that provide water to the Village residents.

Trash Fund – is used to account for the operations that provide trash collection services to the Village residents.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Additionally, the Village reports the following fund types:

Internal Service Fund – The Internal Service Fund is used to account for the financing of services by one department to other departments of the Village.

Special Revenue Funds – are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principal on-going operations. The principal operating revenues of the Enterprise Funds are charges to customers for sale, rent and services. Operating expenses for Enterprise Funds include costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, the unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity –

Cash Equivalents and Investments –

Cash equivalents are short-term investments that are readily convertible to cash. Cash equivalents consist of money market accounts recorded at cost, which approximates fair value.

Investments consisting of certificates of deposit and investment trusts are carried at cost, which approximates fair value.

Interfund Receivables and Payables –

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Property Tax Levy –

Property taxes levied in July of the current year of the Village are treated as revenues in the current year.

Capital Assets –

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives.

<u>Primary Government -</u>	<u>Years</u>
Building/improvements	5-20 years
Utility Systems	50
Road Systems/Other	
Infrastructure	8-25
Equipment	3-20

Compensated Absences –

Village employees are granted paid time off in varying amounts based on length of service which is fully vested when earned. Village employees are granted disability time off which can be accumulated to 240 hours maximum per employee. Upon termination, employees are paid fifty percent of their accumulated disability pay. Vacation is not paid out upon termination. All vested disability is accrued when incurred in the government-wide and proprietary fund financial statements.

Long-Term Obligations –

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity --

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates --

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgets --

Budgets are adopted on the modified cash basis. Annual appropriation budgets are adopted for the General and Special Revenue Funds.

The Village Treasurer and the Village Council Finance Committee prepare and submit their proposed operating budgets for the year commencing July 1. The budgets include proposed expenditures and resources to finance them.

Prior to July 1, the proposed budget is presented to the Village Council. The Council holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through the passage of a Resolution. After the budget is adopted, all amendments must be approved by the Village Council.

The Village's approved budgets were adopted at the function level (second position representing major program area) for the General and Special Revenue Funds. However, for control purposes all the budgets are maintained at the object (account) level.

The Village does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year end.

Budget amounts are reported as originally adopted, or as amended by the Village Council, during the year.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – (cont'd):

Expenditures at these legally adopted levels in excess of the amount budgeted are a violation of the Budgeting Act. During the year ended June 30, 2004, the Village (primary government) incurred expenditures in the General Fund and Special Revenue Funds which were in excess of the amounts appropriated at the activity level for the General Fund and fund level for the Special Revenue Funds as follows:

<u>Fund Type/Function/Activity</u>	<u>Final Budget</u>	<u>Expended</u>	<u>Variance</u>
Primary Government –			
General Fund –			
Public Safety –			
Fire Department	\$ 38,959	\$ 54,050	\$ 15,091
Law Enforcement	56,000	63,250	7,250
Recreation and Cultural –			
Parks and Recreation	3,600	21,587	17,987
Special Revenue Funds –			
Major Street	30,200	36,630	6,430
Bark Shanty Community Center	28,100	28,828	728

NOTE 3 - DEPOSITS AND INVESTMENTS:

The Village utilizes a common cash account and a pooled investment account that is utilized by all funds. Each fund's portion of these accounts is shown on the combined Balance Sheet as cash and cash equivalents and investments. The deposits, withdrawals and investment of funds not utilizing the common cash and pooled investment accounts are held separately from that of the other Village funds.

In accordance with Act 20 PA 1943 as amended by Act 196 PA 1997, the Village is authorized to invest surplus funds in the following types of investments:

- a) In bonds, securities, and other direct obligations of the United States or an agency or instrumentality of the United States.
- b) In certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Sections 21.145 and 21.146 of the Michigan Compiled Laws.
- c) In commercial paper rated at the time of purchase within the two (2) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d) In the United States government or federal agency obligations repurchase agreements.
- e) In bankers acceptances of United States banks.
- f) In obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g) In mutual funds registered under the Investment Company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

NOTE 3 - DEPOSITS AND INVESTMENTS – (cont'd):

Deposits -

Michigan Public Acts authorize the units of local government in Michigan to deposit in the accounts of federally insured banks, insured credit unions, and savings and loan associations. Deposits of the Village are at federally insured banks in the State of Michigan in the name of the Village.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of June 30, 2004, the carrying amount of the Village deposits is \$951,957 and the bank balance is \$1,083,945. Of the bank balance, \$370,000 is covered by Federal Depository Insurance, and the remaining \$713,945 is uninsured and uncollateralized.

The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC Insurance, it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution it deposits Village funds with and assesses the level of risk of each institution. The Village uses only those financial institutions with an acceptable estimated risk level as depositories.

Investments –

As of June 30, 2004, the Village has \$135,262 invested in Investment Trust Funds which are managed by a bank's trust department as investments of the primary government. The investment trust is a pooled fund of money from various Governmental units. The trust invests primarily in short-term maturity U.S. Government backed or guaranteed securities which are held by the trust in its name. These funds have not been considered to be susceptible to investment risk categories.

The certificates of deposit and investment trust funds have been reported in the financial statements as investments even though several certificates of deposit do not have a maturity of more than 90 days from date of purchase and the investment trust funds have characteristics of demand deposit accounts in that the Village may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty. The reason for reporting these as investments is that it is the intent of the Village to reinvest the funds and not make regular withdrawals since the funds are part of the Village's pooled investment program.

Financial Statement Presentation –

The following is a summary of the financial statement presentation of Deposits and Investments at June 30, 2004:

	Total	Financial Reporting			
		Primary Government		Component Units	
		Cash & Cash Equivalents	Investments	Cash & Cash Equivalents	Investments
Deposits	\$ 951,957	\$ 564,908	\$ 188,269	\$ 102,463	\$ 96,317
Investments	135,262	-	89,936	-	45,326
	<u>\$ 1,087,219</u>	<u>\$ 564,908</u>	<u>\$ 278,205</u>	<u>\$ 102,463</u>	<u>\$ 141,643</u>

Included in the caption cash and cash equivalents on the financial statements is \$150 in petty cash for the Primary Government and \$150 in petty cash for the component units.

NOTE 4 - EMPLOYEE PENSION PLAN:

Plan Description -

The Village of Port Sanilac participates in the Michigan Municipal Employees' Retirement System (MERS); an agent multiple-employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy -

The Village is required to contribute at an actuarially determined rate. The computed employer contribution rate for 2004 ranged from 14.25% to 25.57%. The contribution requirements of plan members and the Village are established and may be amended by the Village Council, depending on the MERS contribution program adopted by the Village.

Annual Pension Costs -

For the year ended June 30, 2004, the Village's annual pension cost of \$33,904 for MERS was equal to the Village's required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit B-4. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over a period of 37 years.

Three-Year Trend Information

Fiscal Period Ending	Annual Pension Costs (APC)	Percentage of APC Contribution	Net Pension Obligation
June 30, 2002	\$ 30,397	100 %	\$ -
June 30, 2003	23,678	100	-
June 30, 2004	33,904	100	-

Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (AAL) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)(c)
December 31,						
2001	\$ 138,857	\$ 377,510	\$ 238,653	37 %	\$ 129,970	184 %
2002	164,254	421,978	257,724	39	138,001	187
2003	201,768	488,092	286,324	41	169,092	169

NOTE 5 - INTERFUND RECEIVABLE AND PAYABLE BALANCES:

Interfund receivable and payable balances described as Due From and Due To Other Funds on the Statement of Assets and Liabilities Arising from Cash Transactions reflect amounts due from or owed to a particular fund by another fund of the Primary Government. Interfund receivable and payable balances described as Due From or Due To Primary Government or Component Units reflect amounts due from or due to either the Primary Government or Component Units. These amounts include only short-term obligations on open accounts, and not current portions of long-term loans. A summary of these balances at June 30, 2004, is as follows:

	<u>Due From</u>	<u>Due To</u>
<u>Primary Government:</u>		
<u>General Fund:</u>		
Agency Fund -		
Current Tax Fund	\$ 102	\$ -
Enterprise Fund -		
Water Fund	242	-
Sewer Fund	13,890	-
Special Revenue Funds -		
Local Street	4,752	-
Bark Shanty Community Center	4,580	620
Internal Service Fund -		
Equipment Fund	2,508	-
	<u>26,074</u>	<u>620</u>
<u>Enterprise Fund:</u>		
Water Fund -		
General Fund	-	242
Sewer Fund -		
General Fund	-	13,890
	<u>-</u>	<u>14,132</u>
<u>Internal Service Fund:</u>		
Equipment Fund -		
General Fund	-	2,508
	<u>-</u>	<u>2,508</u>
<u>Agency Fund:</u>		
Current Tax Fund -		
General Fund	-	102
	<u>-</u>	<u>102</u>
<u>Special Revenue Fund:</u>		
Bark Shanty Community Center -		
General Fund	620	4,580
Local Street -		
General Fund	-	4,752
	<u>620</u>	<u>9,332</u>
Total Primary Government	<u>\$ 26,694</u>	<u>\$ 26,694</u>
<u>Due to Component Unit:</u>		
Water Fund -		
DDA	-	236
<u>Due From Primary Government:</u>		
DDA -		
Water Fund	236	-
Total Reporting Entities	<u>\$ 236</u>	<u>\$ 236</u>

NOTE 5 - INTERFUND RECEIVABLE AND PAYABLE BALANCES – (cont'd):

In the General Fund there is a due to and a due from to the Bark Shanty Community Center. This is a result of the Recreation owing the Bark Shanty Community Center \$620, and the Bark Shanty Community Center owing law enforcement \$4,580. Therefore, there is a due to/due from also in the Bark Shanty Fund for these amounts.

NOTE 6 – CAPITAL ASSETS:**Primary Government**

Capital asset activity of the primary government for the year ended June 30, 2004 was as follows:

	July 1, 2004			June 30, 2004
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 12,000	\$ -	\$ -	\$ 12,000
Total capital assets, not being depreciated	<u>12,000</u>	<u>-</u>	<u>-</u>	<u>12,000</u>
Capital assets, being depreciated:				
Buildings and improvements	530,968	-	-	530,968
Improvement other than buildings	-	14,363	-	14,363
Machinery and equipment	148,952	5,148	-	154,100
Vehicles	<u>258,600</u>	<u>19,387</u>	<u>11,100</u>	<u>266,887</u>
Total capital assets being depreciated	<u>938,520</u>	<u>38,898</u>	<u>11,100</u>	<u>966,318</u>
Less accumulated depreciation for:				
Buildings and improvements	314,196	11,236	-	325,432
Improvements other than buildings	-	359	-	359
Machinery and equipment	93,873	11,022	-	104,895
Vehicles	<u>211,709</u>	<u>15,383</u>	<u>11,100</u>	<u>215,992</u>
Total accumulated depreciation	<u>619,778</u>	<u>38,000</u>	<u>11,100</u>	<u>646,678</u>
Total capital assets being depreciated, net	<u>318,742</u>	<u>898</u>	<u>-</u>	<u>319,640</u>
Governmental activities capital assets, net	<u>\$ 330,742</u>	<u>\$ 898</u>	<u>\$ -</u>	<u>\$ 331,640</u>
Business Type Activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 139,670	\$1,807,784	\$ -	\$1,947,454
Capital assets, being depreciated:				
Utility Systems	1,455,272	-	-	1,455,272
Machinery and equipment	<u>17,171</u>	<u>-</u>	<u>-</u>	<u>17,171</u>
Total capital assets being depreciated	<u>1,472,443</u>	<u>-</u>	<u>-</u>	<u>1,472,443</u>
Less accumulated depreciation for:				
Utility Systems	694,866	29,076	-	723,942
Machinery and equipment	<u>5,559</u>	<u>1,785</u>	<u>-</u>	<u>7,344</u>
Total accumulated depreciation	<u>700,425</u>	<u>30,861</u>	<u>-</u>	<u>731,286</u>
Total capital assets being depreciated, net	<u>772,018</u>	<u>(30,861)</u>	<u>-</u>	<u>741,157</u>
Business activities capital assets, net	<u>\$ 911,688</u>	<u>\$1,776,923</u>	<u>\$ -</u>	<u>\$ 2,688,611</u>

NOTE 6 – CAPITAL ASSETS – (cont'd):

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:		
General government	\$	8,582
Public Safety		19,465
Public Works		8,187
Recreation and Cultural		<u>1,766</u>
Total depreciation expense-governmental activities	\$	<u>38,000</u>
Business-type activities:		
Sewer	\$	23,196
Water		<u>7,665</u>
Total depreciation expense-business-type activities	\$	<u>30,861</u>

Discretely Presented Component Units

Port Authority – Harbor. Activity for the Port Authority for the year ended December 31, 2003, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 37,000	\$ -	\$ -	\$ 37,000
Capital assets, being depreciated:				
Land and building improvements	22,062	-	-	22,062
Harbor	1,093,216	8,696	-	1,101,912
Equipment	<u>49,917</u>	<u>700</u>	-	<u>50,617</u>
	<u>1,165,195</u>	<u>9,396</u>	-	<u>1,174,591</u>
Less accumulated depreciation for:				
Land and building improvements	6,823	900	-	7,723
Harbor	372,320	33,736	-	406,056
Equipment	<u>26,001</u>	<u>6,513</u>	-	<u>32,514</u>
	<u>405,144</u>	<u>41,149</u>	-	<u>446,293</u>
Net capital assets being depreciated	<u>760,051</u>	<u>(31,753)</u>	-	<u>728,298</u>
Total capital assets, net	<u>\$ 797,051</u>	<u>\$ (31,753)</u>	<u>\$ -</u>	<u>\$ 765,298</u>

Depreciation expense for 2004 was \$41,149.

NOTE 7 – LONG-TERM LIABILITIES:

PRIMARY GOVERNMENT -

The following is a summary of changes in the long-term debt (including current portions) of the Primary Government for the year ended June 30, 2004:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due Within One Year
Governmental Activities:					
Governmental Funds -					
Advance from sewer fund	\$ 64,540	\$ 10,000	\$ 12,500	\$ 62,040	\$ 22,500
Accrued sick and disability	<u>3,925</u>	<u>1,380</u>	-	<u>5,305</u>	-
Total Governmental Funds	<u>68,465</u>	<u>11,380</u>	<u>12,500</u>	<u>67,345</u>	<u>22,500</u>

NOTE 7 – LONG-TERM LIABILITIES – (cont'd):

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due Within One Year
Business-type Activities:					
2003 Drinking Water Revolving Fund	\$ -	\$ 1,922,548	\$ -	\$ 1,922,548	\$ 80,000
Total Business-Type Activities	-	1,922,548	-	1,922,548	80,000
	<u>\$ 68,465</u>	<u>\$ 1,933,928</u>	<u>\$ 12,500</u>	<u>\$ 1,989,893</u>	<u>\$ 102,500</u>

Primary Government -

Significant details regarding outstanding long-term liabilities (including current portion) of the primary government are presented below:

Accrued Employee Sick and Disability Pay represents unpaid sick and disability due the employees of the Village upon termination of employment. As of June 30, 2004, the amount to be provided for accrued sick and disability pay was \$5,305.

In January 2003, the Sewer Fund advanced the Bark Shanty Community Center Fund \$64,540 for the construction of a new roof. The advance is payable in annual installments of \$12,500 with interest starting in November 2004 until November 2009. At June 30, 2004, the outstanding principal balance is \$52,040.

In order to finance the cost of improvements, the Village of Port Sanilac has participated in the Drinking Water Revolving Fund through which Department of Environmental Quality Bonds have been sold in the amount of \$2,135,000. Through this revolving fund the Village draws down cash as the capital project costs are required to be paid. The cash drawn down at June 30, 2004 is \$1,922,548.

Interest on the bonds shall accrue on the principal disbursed by the Drinking Water Revolving Fund to the Village from the date the principal is disbursed until paid, at the rate of 2.5% per annum, payable October 1, 2003 and semi-annually thereafter. Principal payments are to begin April 1, 2005 in the amount of \$80,000-\$135,000 due annually until April 1, 2024.

Component Unit –

The following is a summary of changes in long-term liabilities (including current portions) of the component unit for the year ended December 31, 2003:

	Balance January 1, 2003	Additions	Reductions	Balance December 31, 2003	Due Within One Year
Port Authority (Harbor):					
1992 Marina Facility Revenue Bonds	\$ 100,000	\$ -	\$ 20,000	\$ 80,000	\$ 20,000
Accrued sick & disability	-	2,778	-	2,778	-
	<u>\$ 100,000</u>	<u>\$ 2,778</u>	<u>\$ 20,000</u>	<u>\$ 82,778</u>	<u>\$ 20,000</u>

Significant details regarding outstanding long-term liabilities of the component unit Port Authority (Harbor) and Downtown Development Authority are presented below:

Accrued Employee Sick and Disability pay represents unpaid sick and disability due the employees of the Harbor upon termination of employment. As of December 31, 2003 the amount to be provided for accrued sick and disability pay was \$2,778.

NOTE 7 - LONG-TERM LIABILITIES – (cont'd):

On October 13, 1992, the Village of Port Sanilac issued \$225,000 in Marina Facility Revenue Bonds to finance the cost of improving and enlarging the public marina facility located in Port Sanilac Harbor.

The bonds payable at year end of \$80,000, are due in annual installments of \$20,000, with interest of 6.70% to 6.80%, payable semi-annually.

The annual requirements to pay the debt principal and interest outstanding on the Marina facility revenue bonds are as follows:

<u>Fiscal Year Ending December 31.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 20,000	\$ 5,410	\$ 25,410
2005	20,000	4,070	24,070
2006	20,000	2,720	22,720
2007	<u>20,000</u>	<u>1,360</u>	<u>21,360</u>
	<u>\$ 80,000</u>	<u>\$ 13,560</u>	<u>\$ 93,560</u>

NOTE 8 - DESIGNATED FUND BALANCE:

The Designated Fund Balance in the General Fund represents amounts designated by the Village Council to be expended for the following General Fund activities:

<u>Activity</u>	<u>Amount</u>
Law Enforcement	\$ 16,696
Fire Operating	5,150
Fire Truck	95,254
Fire Fighters	12,538
Department of Public Works	(60,843)
Recreation	(6,093)
	<u>\$ 62,702</u>

NOTE 9 – RESTRICTED NET ASSETS:

Primary Government –

Business-Type Activities -	Property taxes	\$ 240,719
	Improvement charges	146,331
	DWRF Debt charges	<u>89,023</u>
		<u>\$ 476,073</u>

NOTE 10 - DEFERRED COMPENSATION:

The Village offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

A trust, custodial account or annuity contract exists. Assets are owned or held by the trust, custodian or insurer for the exclusive benefit of participants and beneficiaries, and are not subject to the claims of public employer creditors, nor can they be used by the public employer for any purpose other than the payment of benefits to those individuals participating in the plan or their designated beneficiaries.

As part of its fiduciary role, the Village has an obligation of due care in selecting the third party administrator. The Village believes it has acted in a prudent manner and is not liable for losses that may arise from the administration of the plan.

NOTE 11 – RESTATEMENTS:

As of and for the year ended June 30, 2004, the Village implemented the following Governmental Accounting Standards Board pronouncements:

Statements

- No. 33 – *Accounting and Financial Reporting for Nonexchange Transactions*
- No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- No. 36 – *Recipient Reporting for Certain Shared Nonexchange Revenues – An Amendment of GASB No. 33*
- No. 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*
- No. 38 – *Certain Financial Statement Note Disclosures*

Interpretation

- No. 6 *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. These pronouncements are scheduled for a phased implementation (based on the size of the government) through fiscal years ending in 2005. The Village is required to implement the new requirements no later than the year ending June 30, 2004.

The more significant of the changes required by the new standards include:

- Management's discussion and analysis;
- Basic financial statements that include:
- Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
- Fund financial statements, consisting of a series of statements that focus on a government's major governmental funds and enterprise funds;
- Schedules to reconcile the fund financial statements to the government-wide financial statements;

NOTE 11 – RESTATEMENTS – (cont'd):

- Notes to financial statements;
- Required supplementary information, including certain budgetary schedules.

As a result of implementing these pronouncements for the fiscal year ended June 30, 2004, the following restatements were made to net assets at June 30, 2003:

Government-wide financial statements. Beginning net assets for governmental activities were determined as follows:

Fund balances of general and special revenue funds as of 6/30/03	\$ 318,750
Add: capital assets	796,146
Less: accumulated depreciation on capital assets	(521,849)
Less: advance payable	(64,540)
Less: accrued compensated absences	(3,925)
Add: governmental internal service fund net assets	<u>81,518</u>
Net Assets at 6/30/03	<u>\$ 606,100</u>

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF PORT SANILAC, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2004

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 167,096	\$ 167,096	\$ 176,489	\$ 9,393
Intergovernmental -				
State	66,500	66,500	59,574	(6,926)
Local	13,750	13,750	11,750	(2,000)
Charges for services	7,771	7,771	26,952	19,181
Fines and forfeits	300	300	496	196
Interest and rents	2,200	2,200	1,746	(454)
Other	23,100	23,100	41,755	18,655
Total Revenues	<u>280,717</u>	<u>280,717</u>	<u>318,762</u>	<u>38,045</u>
Expenditures:				
Current -				
General Government	115,000	115,000	113,237	1,763
Public Safety	95,059	94,959	117,300	(22,341)
Public Works	105,258	105,258	101,291	3,967
Recreation and Culture	3,600	3,600	21,587	(17,987)
Total Expenditures	<u>318,917</u>	<u>318,817</u>	<u>353,415</u>	<u>(34,598)</u>
Excess of revenues under expenditures	(38,200)	(38,100)	(34,653)	3,447
Other Financing Sources (Uses):				
Advance proceeds	-	-	10,000	10,000
Transfers in	72,000	72,000	32,901	(39,099)
Transfers out	(2,800)	(2,900)	(2,800)	100
	<u>69,200</u>	<u>69,100</u>	<u>40,101</u>	<u>(28,999)</u>
Excess of revenues and other financing sources over (under) expenditures	31,000	31,000	5,448	(25,552)
Fund Balance at beginning of year	<u>128,844</u>	<u>128,844</u>	<u>128,844</u>	-
Fund Balance at end of year	<u>\$ 159,844</u>	<u>\$ 159,844</u>	<u>\$ 134,292</u>	<u>\$ (25,552)</u>

VILLAGE OF PORT SANILAC, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 167,096	\$ 167,096	\$ 176,489	\$ 9,393
Intergovernmental -				
State	66,500	66,500	59,574	(6,926)
Local	13,750	13,750	11,750	(2,000)
Charges for services	7,771	7,771	26,952	19,181
Fines and forfeits	300	300	496	196
Interest and rents	2,200	2,200	1,746	(454)
Other	23,100	23,100	41,755	18,655
	<u>280,717</u>	<u>280,717</u>	<u>318,762</u>	<u>38,045</u>
Expenditures:				
General Government	187,500	187,500	179,321	8,179
Less: Reimbursement from other funds	(72,500)	(72,500)	(66,084)	(6,416)
Total General Government	<u>115,000</u>	<u>115,000</u>	<u>113,237</u>	<u>1,763</u>
Public Safety -				
Fire department	38,959	38,959	54,050	(15,091)
Law enforcement	56,100	56,000	63,250	(7,250)
	<u>95,059</u>	<u>94,959</u>	<u>117,300</u>	<u>(22,341)</u>
Public Works -				
Department of public works	105,258	105,258	101,291	3,967
Recreational and Cultural-				
Parks and recreation	3,600	3,600	21,587	(17,987)
Total Expenditures	<u>318,917</u>	<u>318,817</u>	<u>353,415</u>	<u>(34,598)</u>
Excess of revenues over expenditures	(38,200)	(38,100)	(34,653)	3,447
Other Financing Sources:				
Advance proceeds	-	-	10,000	10,000
Transfers in	72,000	72,000	32,901	(39,099)
Transfers out	(2,800)	(2,900)	(2,800)	100
	<u>69,200</u>	<u>69,100</u>	<u>40,101</u>	<u>(28,999)</u>
Excess of revenues and other financing over (under) expenditures	31,000	31,000	5,448	(25,552)
Fund Balance at beginning of year	<u>128,844</u>	<u>128,844</u>	<u>128,844</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 159,844</u>	<u>\$ 159,844</u>	<u>\$ 134,292</u>	<u>\$ (25,552)</u>

SUPPLEMENTARY INFORMATION

VILLAGE OF PORT SANILAC, MICHIGAN

**COMBINING BALANCE SHEET - MODIFIED CASH BASIS
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2004**

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Major Street	Local Street	County Road	South Ramp	Bark Shanty Community Center	
ASSETS						
Cash and cash equivalents	\$ 8,422	\$ 33,808	\$ 69,690	\$ 8,082	\$ 34,173	\$ 154,175
Investments	37,868	30,704	-	6,894	-	75,466
Due from state	5,812	3,288	-	-	-	9,100
Due from other funds	-	-	-	-	620	620
Total Assets	<u>\$ 52,102</u>	<u>\$ 67,800</u>	<u>\$ 69,690</u>	<u>\$ 14,976</u>	<u>\$ 34,793</u>	<u>\$ 239,361</u>
LIABILITIES AND FUND BALANCE						
Liabilities:						
Due to other funds	\$ -	\$ 4,752	\$ -	\$ -	\$ 4,580	\$ 9,332
Fund Balance:						
Unreserved -						
Undesignated	<u>52,102</u>	<u>63,048</u>	<u>69,690</u>	<u>14,976</u>	<u>30,213</u>	<u>230,029</u>
	<u>\$ 52,102</u>	<u>\$ 67,800</u>	<u>\$ 69,690</u>	<u>\$ 14,976</u>	<u>\$ 34,793</u>	<u>\$ 239,361</u>

VILLAGE OF PORT SANILAC, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Major Street	Local Street	County Road	South Ramp	Bark Shanty Community Center	
Revenues:						
Taxes	\$ -	\$ 21,612	\$ -	\$ 2,645	\$ 20,639	\$ 44,896
Intergovernmental -						
State Highway Act 51	34,234	19,346	-	-	-	53,580
Local County Millage	-	-	41,051	-	-	41,051
Interest and rent	599	637	-	85	7,469	8,790
Other	-	30	-	-	3,958	3,988
Total Revenues	<u>34,833</u>	<u>41,625</u>	<u>41,051</u>	<u>2,730</u>	<u>32,066</u>	<u>152,305</u>
Expenditures:						
Current -						
Public Works	36,630	32,971	20,518	-	-	90,119
Recreation and Cultural	-	-	-	1,335	16,328	17,663
Debt service -						
Principal	-	-	-	-	12,500	12,500
Total Expenditures	<u>36,630</u>	<u>32,971</u>	<u>20,518</u>	<u>1,335</u>	<u>28,828</u>	<u>120,282</u>
Excess of revenues over (under) expenditures	(1,797)	8,654	20,533	1,395	3,238	32,023
Other Financing Sources (Uses):						
Sale of asset	-	-	11,100	-	-	11,100
Transfers out	(1,500)	(1,500)	-	-	-	(3,000)
	<u>(1,500)</u>	<u>(1,500)</u>	<u>11,100</u>	<u>-</u>	<u>-</u>	<u>8,100</u>
Excess of revenues over (under) expenditures and other uses	(3,297)	7,154	31,633	1,395	3,238	40,123
Fund Balances at beginning of year	<u>55,399</u>	<u>55,894</u>	<u>38,057</u>	<u>13,581</u>	<u>26,975</u>	<u>189,906</u>
Fund Balances at end of year	<u>\$ 52,102</u>	<u>\$ 63,048</u>	<u>\$ 69,690</u>	<u>\$ 14,976</u>	<u>\$ 30,213</u>	<u>\$ 230,029</u>

VILLAGE OF PORT SANILAC, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
BUDGET AND ACTUAL - MAJOR STREET FUND
FOR THE YEAR ENDED JUNE 30, 2004**

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Intergovernmental -			
State Highway Act 51	\$ 32,000	\$ 34,234	\$ 2,234
Interest	700	599	(101)
	<u>32,700</u>	<u>34,833</u>	<u>2,133</u>
Expenditures:			
Public Works -			
Salaries	8,000	3,204	4,796
FICA	500	566	(66)
Hospitalization	5,000	5,000	-
Other fringe benefits	6,692	6,000	692
Supplies	3,000	2,302	698
Legal and professional	500	-	500
Contracted services	500	-	500
Insurance and bonds	500	398	102
Repairs and maintenance	-	15,437	(15,437)
Equipment rental	5,000	3,721	1,279
Miscellaneous	508	2	506
	<u>30,200</u>	<u>36,630</u>	<u>(6,430)</u>
Excess of revenues over (under) expenditures	<u>2,500</u>	<u>(1,797)</u>	<u>(4,297)</u>
Other Financing Uses:			
Transfers out	(2,500)	(1,500)	1,000
Excess of revenues under expenditures and other uses	-	(3,297)	(3,297)
Fund Balance at beginning of year	<u>55,399</u>	<u>55,399</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 55,399</u>	<u>\$ 52,102</u>	<u>\$ (3,297)</u>

VILLAGE OF PORT SANILAC, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
BUDGET AND ACTUAL - LOCAL STREET FUND
FOR THE YEARS ENDED JUNE 30, 2004**

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Property taxes	\$ 23,500	\$ 21,612	\$(1,888)
Intergovernmental -			
State Highway Act 51	17,500	19,346	1,846
Interest	1,000	637	(363)
Other	-	30	30
	<u>42,000</u>	<u>41,625</u>	<u>(375)</u>
Expenditures:			
Public Works -			
Salaries	9,000	4,732	4,268
FICA	500	574	(74)
Hospitalization	5,000	5,000	-
Other fringe benefits	6,830	6,000	830
Supplies	3,000	968	2,032
Legal and professional	500	-	500
Insurance and bonds	500	336	164
Repairs and maintenance	-	10,215	(10,215)
Equipment rental	7,000	5,144	1,856
Miscellaneous	8,170	2	8,168
	<u>40,500</u>	<u>32,971</u>	<u>7,529</u>
Excess of revenues over expenditures	<u>1,500</u>	<u>8,654</u>	<u>7,154</u>
Other Financing Uses:			
Transfers out	(1,500)	(1,500)	-
Excess of revenues over expenditures and other uses	-	7,154	7,154
Fund Balance at beginning of year	<u>55,894</u>	<u>55,894</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 55,894</u>	<u>\$ 63,048</u>	<u>\$ 7,154</u>

VILLAGE OF PORT SANILAC, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
BUDGET AND ACTUAL - COUNTY ROAD FUND
FOR THE YEARS ENDED JUNE 30, 2004**

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Intergovernmental -			
Local County Millage	\$ 36,500	\$ 41,051	\$ 4,551
	<u>36,500</u>	<u>41,051</u>	<u>4,551</u>
Expenditures:			
Public Works -			
Repairs and maintenance	33,000	1,131	31,869
Miscellaneous	3,500	-	3,500
Capital outlay	-	19,387	(19,387)
	<u>36,500</u>	<u>20,518</u>	<u>15,982</u>
Excess of revenues over expenditures	<u>-</u>	<u>20,533</u>	<u>20,533</u>
Other Financing Sources:			
Sale of asset	<u>-</u>	<u>11,100</u>	<u>11,100</u>
Excess of revenues and other financing sources over expenditures	-	31,633	31,633
Fund Balance at beginning of year	<u>38,057</u>	<u>38,057</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 38,057</u>	<u>\$ 69,690</u>	<u>\$ 31,633</u>

VILLAGE OF PORT SANILAC, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
BUDGET AND ACTUAL - SOUTH RAMP FUND
FOR THE YEARS ENDED JUNE 30, 2004

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Franchise fees	\$ 3,100	\$ 2,645	\$ (455)
Interest	-	85	85
	<u>3,100</u>	<u>2,730</u>	<u>(370)</u>
Expenditures:			
Recreation and Cultural -			
Repairs and maintenance	1,400	1,335	65
Miscellaneous	1,700	-	1,700
	<u>3,100</u>	<u>1,335</u>	<u>1,765</u>
Excess of revenues over expenditures	-	1,395	1,395
Fund Balance at beginning of year	<u>13,581</u>	<u>13,581</u>	-
Fund Balance at end of year	<u>\$ 13,581</u>	<u>\$ 14,976</u>	<u>\$ 1,395</u>

VILLAGE OF PORT SANILAC, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
BUDGET AND ACTUAL - BARK SHANTY COMMUNITY CENTER
FOR THE YEARS ENDED JUNE 30, 2004**

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Taxes	\$ 23,500	\$ 20,639	\$(2,861)
Interest	100	-	(100)
Rentals	4,500	7,469	2,969
Other	-	3,958	3,958
	<u>28,100</u>	<u>32,066</u>	<u>3,966</u>
Expenditures:			
Recreation and Cultural -			
Salaries	3,000	2,982	18
FICA	-	76	(76)
Supplies	1,000	2,260	(1,260)
Contracted services	-	44	(44)
Utilities	5,500	6,953	(1,453)
Repairs and maintenance	3,200	423	2,777
Equipment rental	2,500	2,049	451
Miscellaneous	400	1,541	(1,141)
Debt service -			
Principal	12,500	12,500	-
	<u>28,100</u>	<u>28,828</u>	<u>(728)</u>
Excess of revenues over expenditures	-	3,238	3,238
Fund Balance at beginning of year	26,975	26,975	-
Fund Balance at end of year	<u>\$ 26,975</u>	<u>\$ 30,213</u>	<u>\$ 3,238</u>

FIDUCIARY FUND

VILLAGE OF PORT SANILAC, MICHIGAN
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
CURRENT TAX COLLECTION FUND
FOR THE YEAR ENDED JUNE 30, 2003

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004
Assets:				
Cash and cash equivalents	\$ 129	\$ 252,065	\$ 252,092	\$ 102
Total Assets	<u>\$ 129</u>	<u>\$ 252,065</u>	<u>\$ 252,092</u>	<u>\$ 102</u>
Liabilities:				
Due to other funds	129	252,065	252,092	102
Total Liabilities	<u>\$ 129</u>	<u>\$ 252,065</u>	<u>\$ 252,092</u>	<u>\$ 102</u>

VILLAGE OF PORT SANILAC, MICHIGAN

**SUPPLEMENTARY INFORMATION TO
BASIC FINANCIAL STATEMENTS**

(FEDERAL AWARDS)

FOR THE YEAR ENDED JUNE 30, 2004

**Stewart,
Beauvais
& Whipple P.C.**

CERTIFIED PUBLIC ACCOUNTANTS



VILLAGE OF PORT SANILAC, MICHIGAN

TABLE OF CONTENTS

	Page Number
Independent Auditor's Report on --	
Supplementary Financial Information	1
Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	2
Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	4
Schedule of Expenditures of Federal Awards	6
Notes to Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	8



INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY FINANCIAL INFORMATION

To the President and Members
of the Village Council
Village of Port Sanilac, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Port Sanilac, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the Village's basic financial statements. Those financial statements are the responsibility of the Village of Port Sanilac's management. Our responsibility is to express opinions on those financial statements based on our audit.

The Village of Port Sanilac, Michigan, prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United State of America.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Village of Port Sanilac, Michigan's basic financial statements. The Schedule of Federal Expenditures of Federal Awards presented on Page 6 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is not a required part of the basic financial statements. The information in this schedule has been subject to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stewart, Beauvais & Whipple
Certified Public Accountants

July 22, 2004



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the President and Members
of the Village Council
Village of Port Sanilac, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Port Sanilac, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the Village's basic financial statements and have issued our report thereon, dated August 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The Village of Port Sanilac, Michigan, prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United State of America.

Compliance


As part of obtaining reasonable assurance about whether the Village of Port Sanilac, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financing Reporting

In planning and performing our audit, we considered the Village of Port Sanilac, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village of Sanilac, Michigan's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as 04-1 and 04-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above are considered to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management of the Village of Port Sanilac, Michigan, in a separate letter dated August 22, 2004.

This report is intended solely for the information and use of the management and the Village Council of Port Sanilac, Michigan, and federal awarding agency and pass-through entity and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

August 22, 2004

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the President and Members
of the Village Council
Village of Port Sanilac, Michigan

Compliance

We have audited the compliance of the Village of Port Sanilac, Michigan, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The Village of Port Sanilac, Michigan's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Village of Port Sanilac, Michigan's management. Our responsibility is to express an opinion on the Village of Port Sanilac, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village of Port Sanilac, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village of Port Sanilac, Michigan's compliance with those requirements.

In our opinion, the Village of Port Sanilac, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the Village of Port Sanilac, Michigan, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Village of Port Sanilac, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management, the Village Council of Port Sanilac, Michigan, and federal awarding agency and pass-through entity and is not intended to be and should not be used by anyone other than these specified parties.

Stewart, Beauregard + Whipple

Certified Public Accountants

August 22, 2004

VILLAGE OF PORT SANILAC, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY:</u>			
<u>Passed Through the Michigan Department</u>			
<u>of Environmental Quality:</u>			
Capitalization Grants for Drinking Water State Revolving Funds	66.468		
State Revolving Fund Loan		7054-01	<u>\$ 1,325,597</u>

See Notes to Schedule of Expenditures of Federal Awards

VILLAGE OF PORT SANILAC, MICHIGAN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Village of Port Sanilac and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. (See Note 3)

NOTE 2 - SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE:

Federal reimbursement for the Drinking Water State Revolving Fund program is a percentage of the total reimbursements. The federal percentage has changed based on specific periods of time. The federal portion which is reported on the Schedule of Expenditures of Federal Awards for the period reimbursed is 68.95%.

NOTE 3 - RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

Since the proceeds from the Drinking Water State Revolving Fund Program are a loan to the Village of Port Sanilac for water system improvements, the loan proceeds are reported as a liability in the Water fund rather than a revenue and the disbursement are reported as capital assets rather than as an expenditure.

Financial Statements -	
DWRF Bond Payable	\$ 1,922,548
Less – State funded portion	<u>596.951</u>
Expenditures per Schedule of	
Expenditures of Federal Awards	<u>\$ 1,325,597</u>

VILLAGE OF PORT SANILAC, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004

Section I – Summary Of Auditor's Results:

Financial Statements

Type of auditor's report issued: Qualified

Internal controls over financial reporting:

 Material weakness(es) identified? _____ yes x no

 Reportable condition(s) identified not
 considered to be material weaknesses? x yes _____ none reported

Noncompliance material to financial
statements noted? _____ yes x no

Federal Awards

Internal Control over major programs:

 Material weakness(es) identified? _____ yes x no

 Reportable condition(s) identified not
 considered to be material weaknesses? _____ yes x none reported

Type of auditor's report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required to
be reported in accordance with Circular A – 133,
Section 510(a)? _____ yes x no

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
CFDA #66.468	Drinking Water State Revolving Fund Program
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	_____ yes <u> x </u> no

Section II – Financial Statement Findings:

The following two findings are considered to be reportable conditions on internal control over financial reporting that are not considered to be material weaknesses.

03-1

Program – This Financial Statement Finding does not have an effect on Federal Awards

Controls Over Utility Billings and Receivables

At the current time the same individual inputs meter readings, mails out billings, collects cash receipts, and credits customer accounts. We understand that in small offices it is very difficult to separate accounting functions.

We recommend that the duties be segregated as much as possible to improve controls.

03-2 Program – This Financial Statement Finding does not have an effect on Federal Awards

Controls over Cash Accounts

At the current time cash is maintained by individuals separate from the Village offices for the DDA and Volunteer Firefighters fund along with the receipt and disbursement records. As a result, the internal control of having an individual perform bank reconciliations that does not also perform the duties of preparing the financial records is not in place.

We recommend that it be considered to have the bank reconciliations performed by someone in the Village office to allow for increased controls.

Section III – Federal Award Findings And Questioned Costs:

There were no Federal Award Findings and Questioned Costs required to be reported by Section 510(a) of OMB Circular A-133.

Section IV – Prior Year Findings:

No prior year Single Audit.



To the President and Members
of the Village Council
Village of Port Sanilac
Port Sanilac, Michigan

As you know, we have recently completed our audit of the basic financial statements (modified cash basis) of the Village of Port Sanilac as of and for the year ended June 30, 2004. As noted in the Report on Compliance and on Internal Control over Financial Reporting, dated July 22, 2004, there were no compliance issues or material weaknesses, however two reportable conditions that were required to be reported under Government Auditing Standards.

As we discussed, this is the first year that the Village was audited under the new Statement of Auditing Standards No. 99 "Consideration of Fraud in the Financial Statement Audit", which became effect for audits ending on or after December 31, 2003. SAS 99 put renewed emphasis on internal control over fraud and abuse in the workplace. It requires that we "brainstorm" on how fraud and abuse can be committed in an entity and design tests with this in mind. The new standard also requires improved communications with the client on possible areas of fraud and abuse. As a result, we believe that certain changes in your accounting and administrative procedures would enhance controls that the Village has in place.

Controls over the Budgeting Process.

As noted in the audited financial statements, some of the expenditures of the Village exceed the amount appropriated.

Michigan Public Act 621 of 1978 Sec. 18, as amended, provides that a Village shall adopt formal budgets for the General and Special Revenue Funds and shall not incur expenditures in excess of the amounts appropriated.

The Village has established procedures to detect such violations; however, there were instances where overages occurred.

Budget amendments should be made to cover any expenditures in excess of the amounts appropriated with all budget amendments approved by Village Council prior to the end of the fiscal year.

Controls over Allocation of Administrative Expenditures.

When preparing an allocation plan for central service costs two specific items have to be identified - the cost that is central service in nature and the basis to be used to allocate the central service cost.

We noted that the Village allocates administrative expenditures, however, we believe that the method of allocation should be reviewed to determine that all the administrative costs that are central service in nature are included in the plan and that the basis for allocation is readily available and verifiable.

If this cost allocation criteria is followed, the Village will have support that the costs charged to the various funds are reasonable and equitable.

These conditions were considered in determining the nature, timing and extent of the audit tests applied in our audit of the June 30, 2004 financial statements. We have not considered internal control since the date of our report. It is important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended for the information of the management and members of the Village Council and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation of the courtesy and cooperation extended to us during our examination. We are available to discuss any or all of these conditions with you and to provide assistance in the implementation of improvements.

Sincerely,

Stewart, Beaman & Whipple

July 22, 2004